

**Trade Policy Developments
Affecting Cotton**

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USDA Ag Outlook Forum 2003

Issues to Cover

- **US Cotton Industry MEGA Trend**
- **Brazilian Complaint**
- **China TRQ Administration**
- **Implementation of ATC**

Cotton Industry Mega Trend

U.S. Cotton Use in Bales

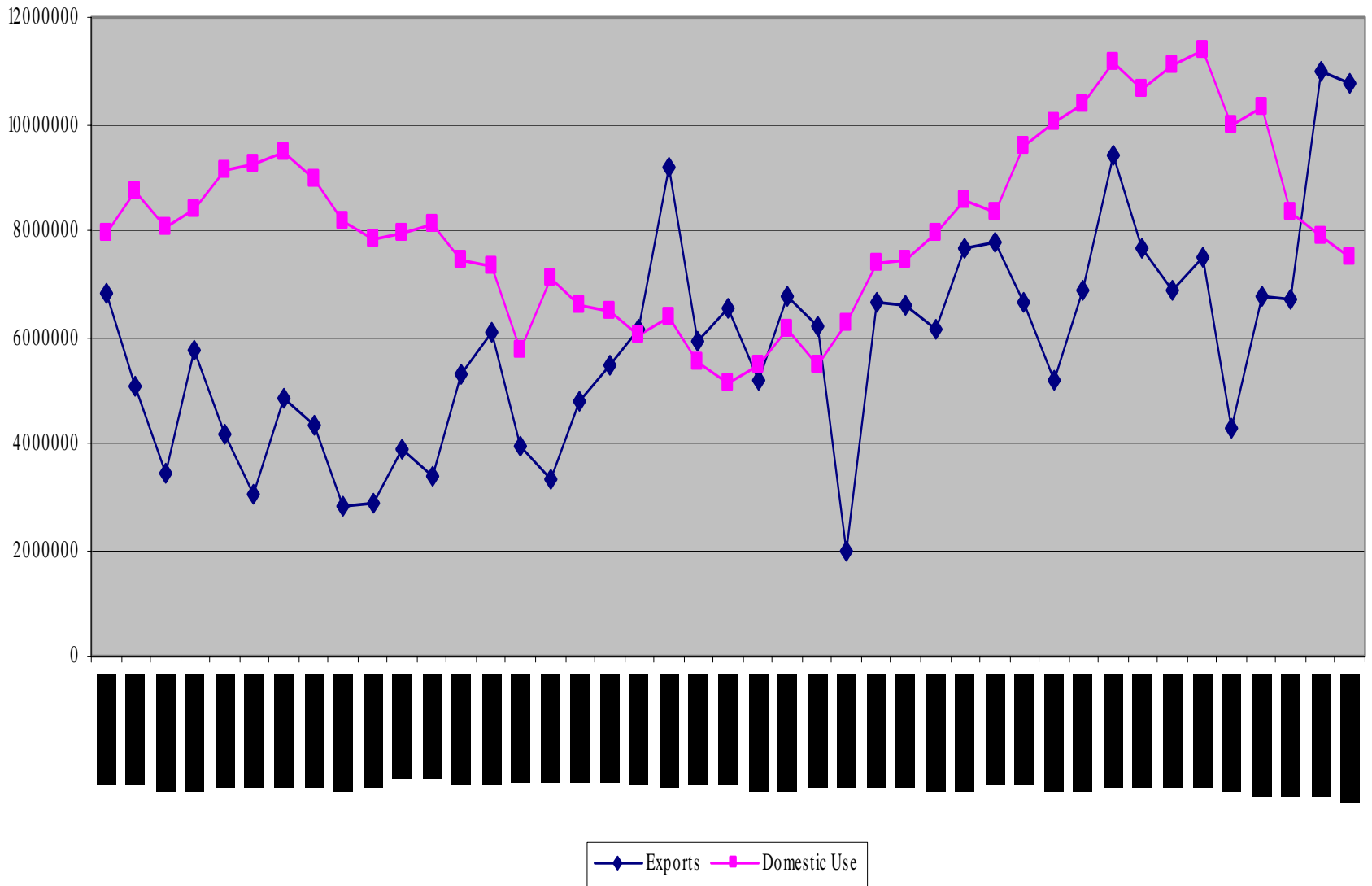
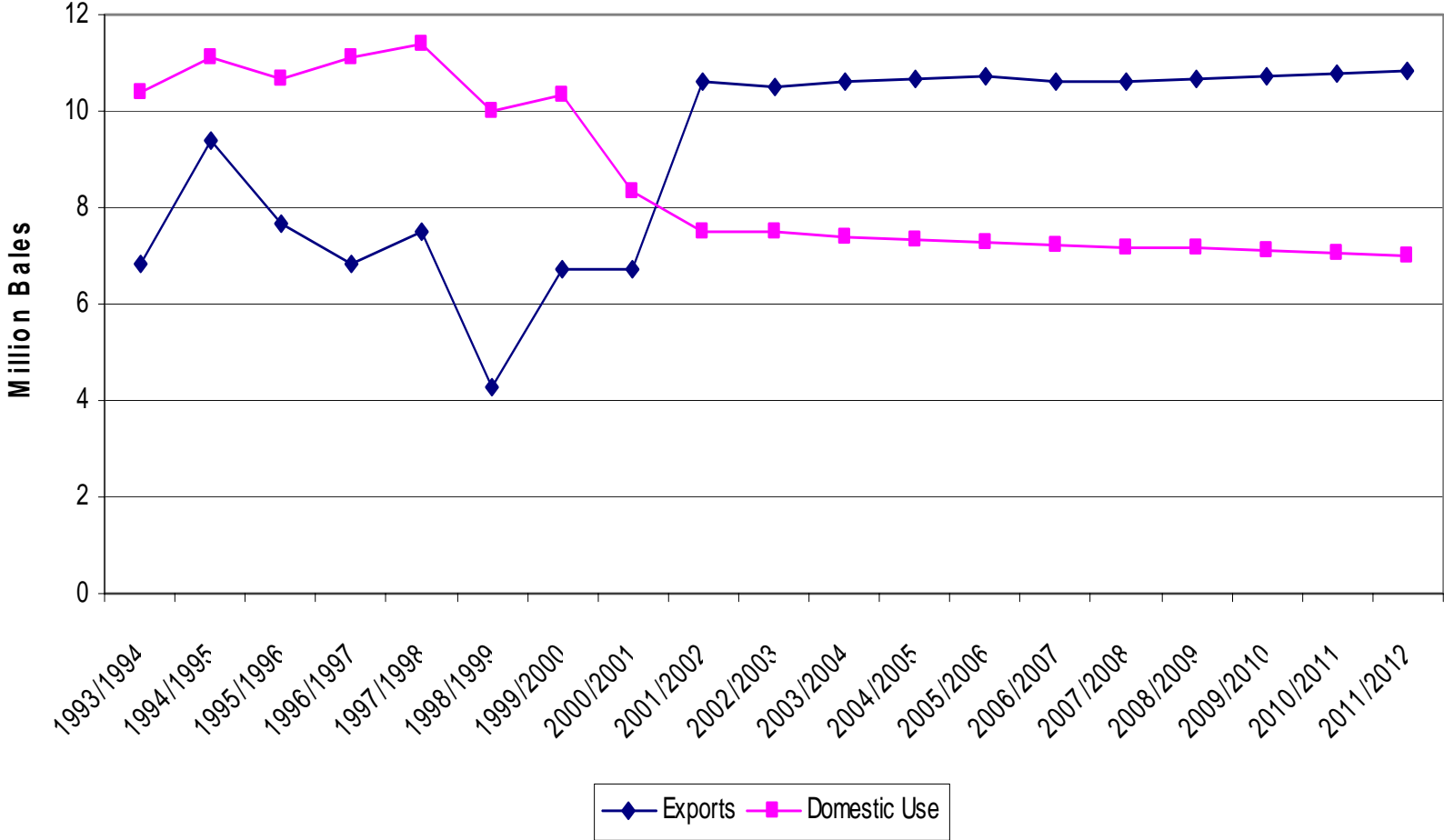
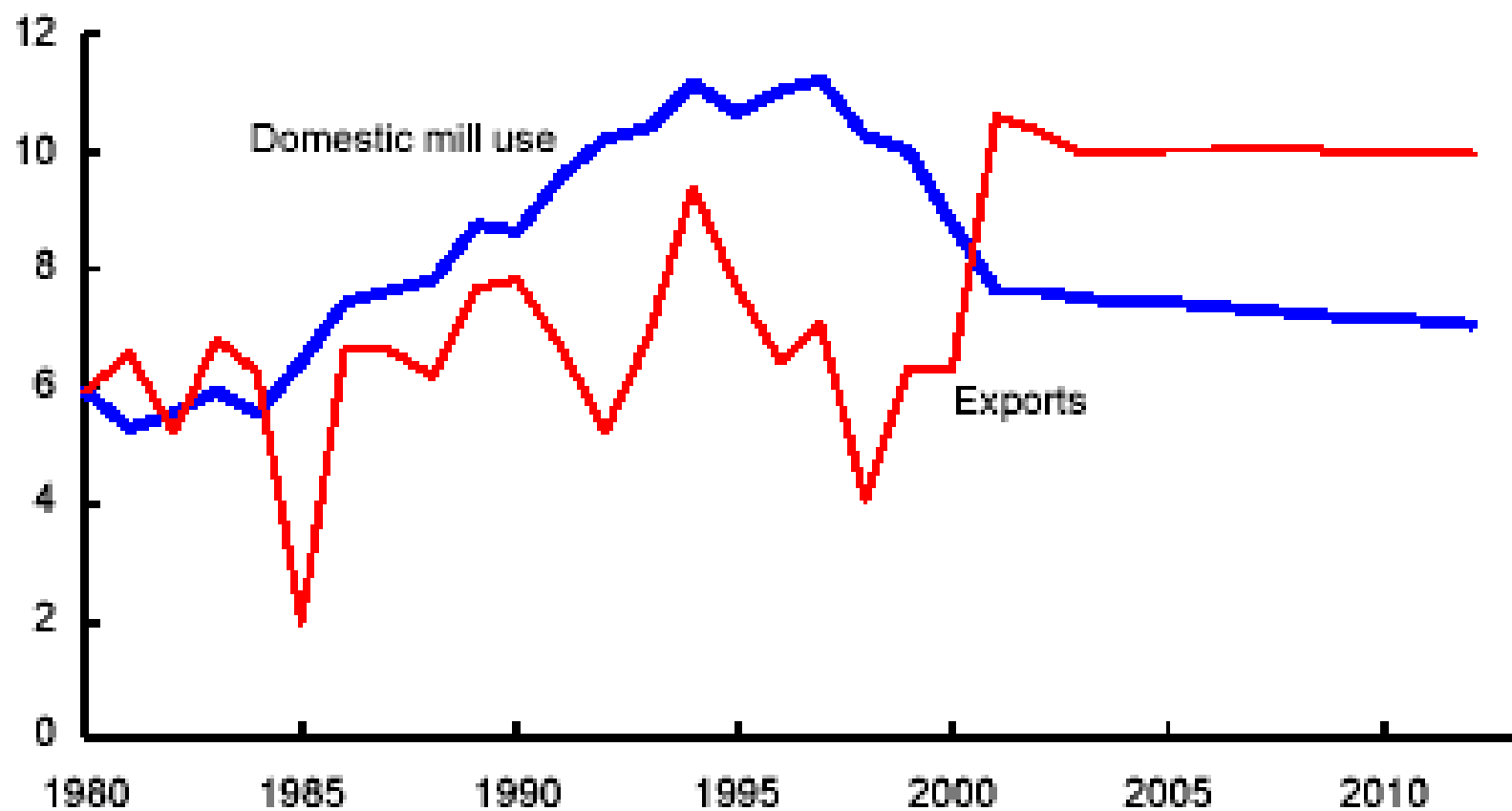


Figure 2. FAPRI U.S. Cotton Use Projections



Upland cotton: Domestic mill use and exports

Million bales



USDA 2003 Baseline

Brazilian WTO Complaint

Brazilian WTO Complaint Timeline

- Request for Consultations September
 - Final talks on Dec 4-5
- Formal request for dispute panel February 6
- Request on WTO's Dispute Settlement Body Agenda (DSB) for February 19
 - US can block request for panel, but Brazil can renew request at next DSB meeting on March 18 with automatic acceptance

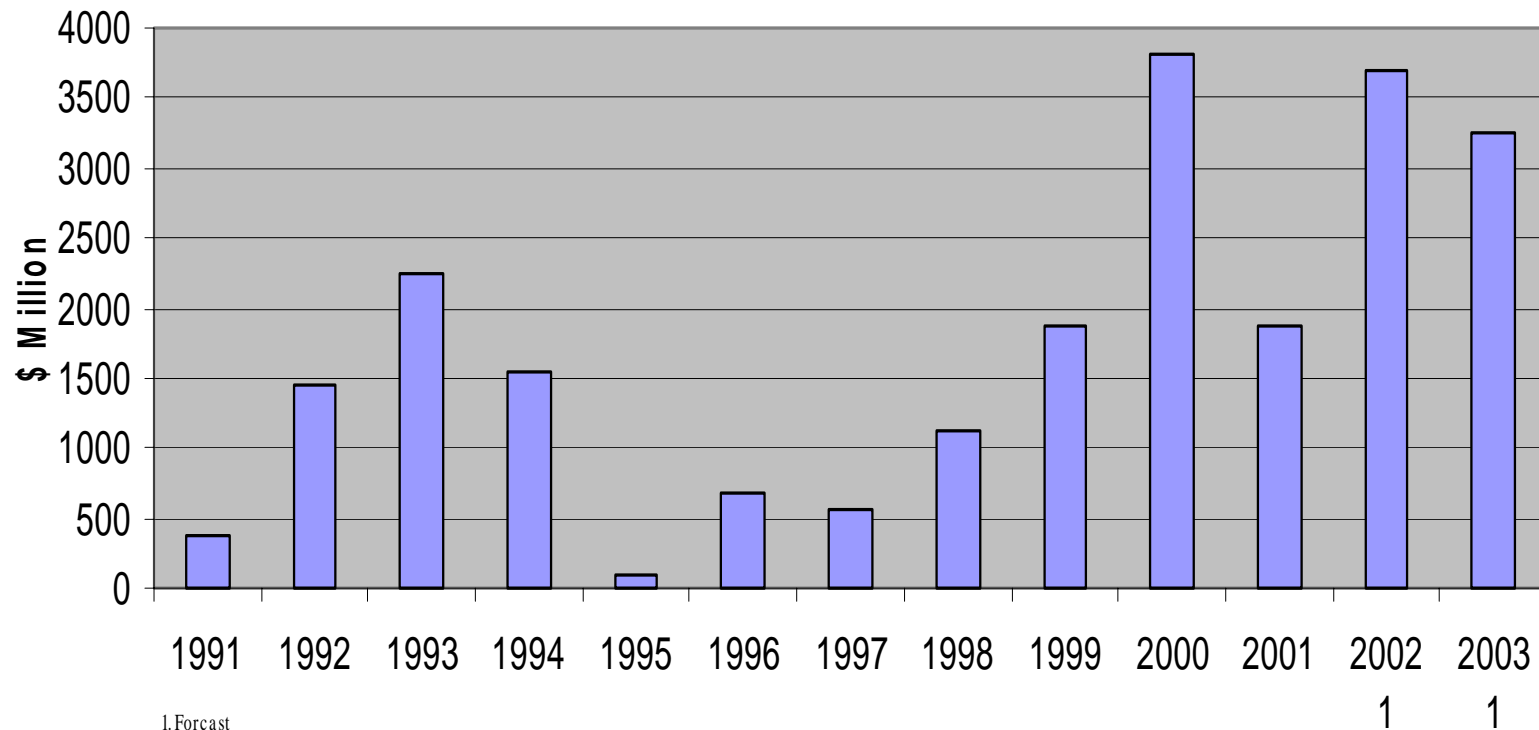
What are Brazil's Complaints?

- **US support for cotton in 1999-2002
Exceeds Article 13 “Peace Clause” limits
equal to 1992 marketing year levels**
- **Violation of Article 5 (c) of WTO's Subsidies and
Countervailing Measures (SCM) Agreement
(Subsidies causing “Serious Prejudice” to
their trade interest)**
- **Violation of Article 6.3 (b) of the SCM
(Subsidies that cause displacement or are an
impediment to exports of a like product from
another WTO member)**

“Serious Prejudice” Occurs If a Country’s Subsidy is Found to do one or More of the following:

- ❖ Impede or displace the export of a like product into the market of the subsidizing Member or Third Country Market**
- ❖ Result in a significant price undercutting, price suppression, price depression or loss of sales**
- ❖ Increases the market share of the subsidizing Member compared to previous 3 year average share and the increase follows a consistent trend over a period when subsidies have been granted**

Peace Clause Violation? CCC Net Outlays For Cotton

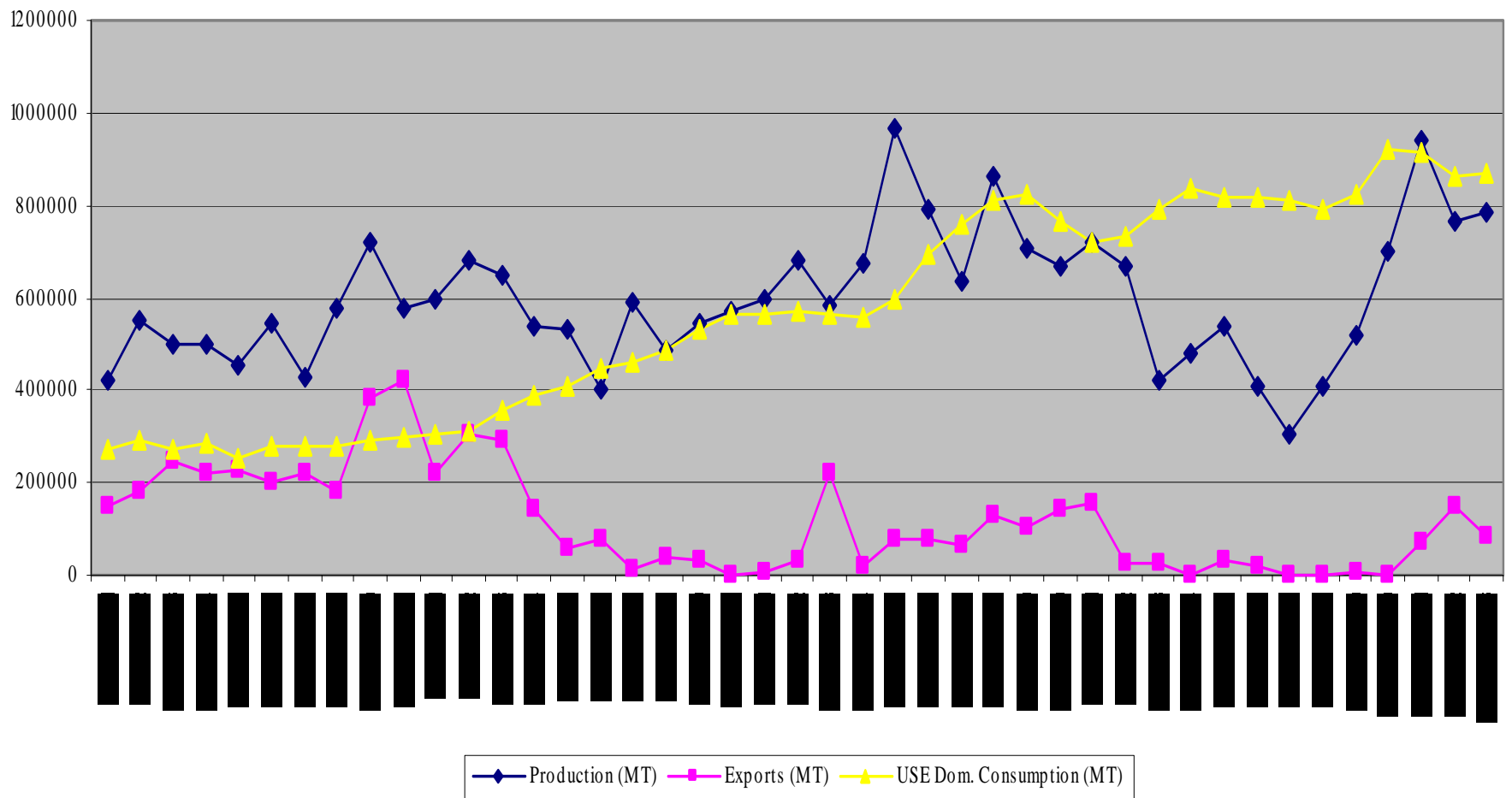


1. Forecast

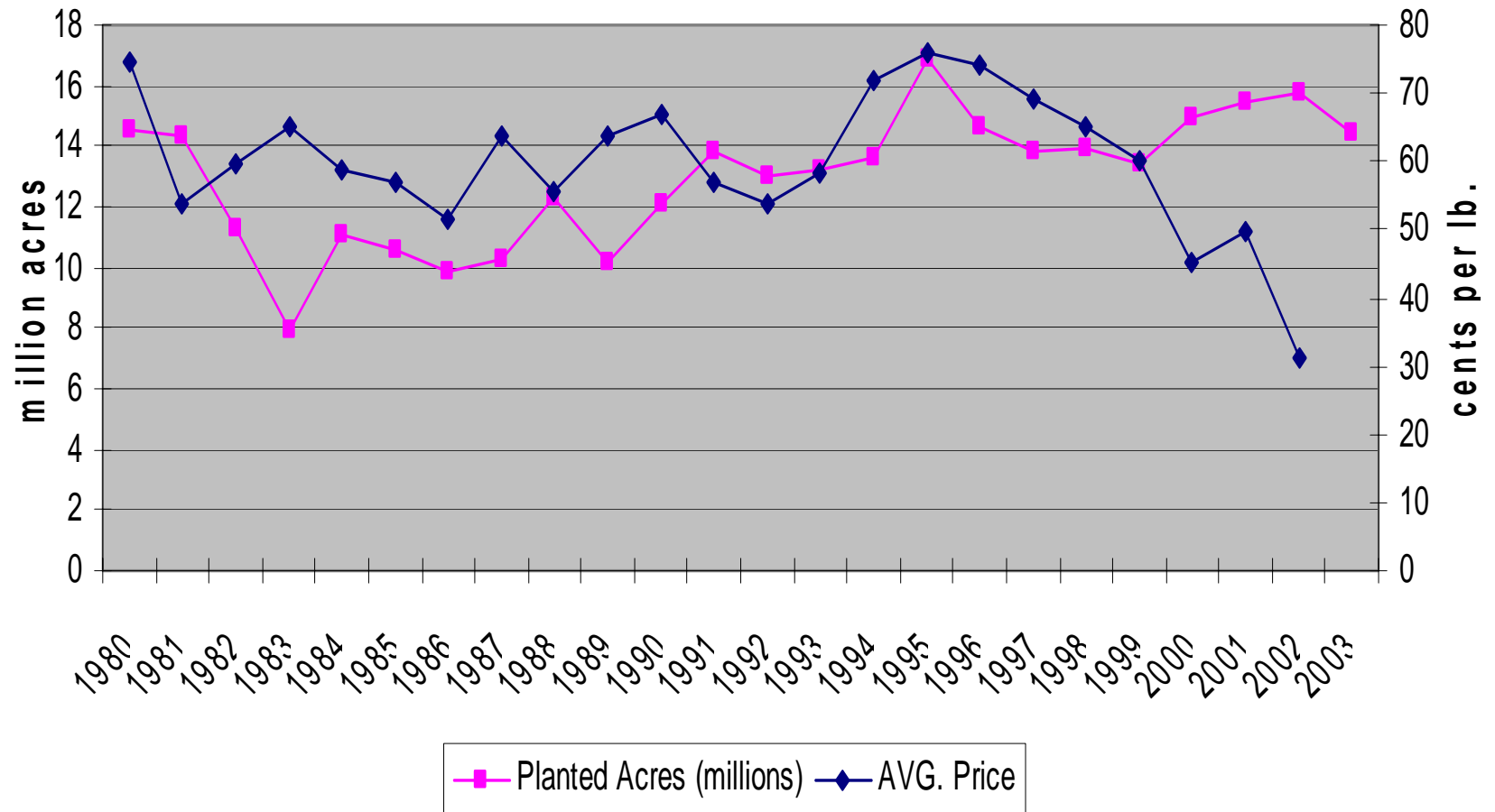
Source: USDA-ERS, 2003. Outlook Table 35

Impede Exports?

Brazilian Cotton Statistics

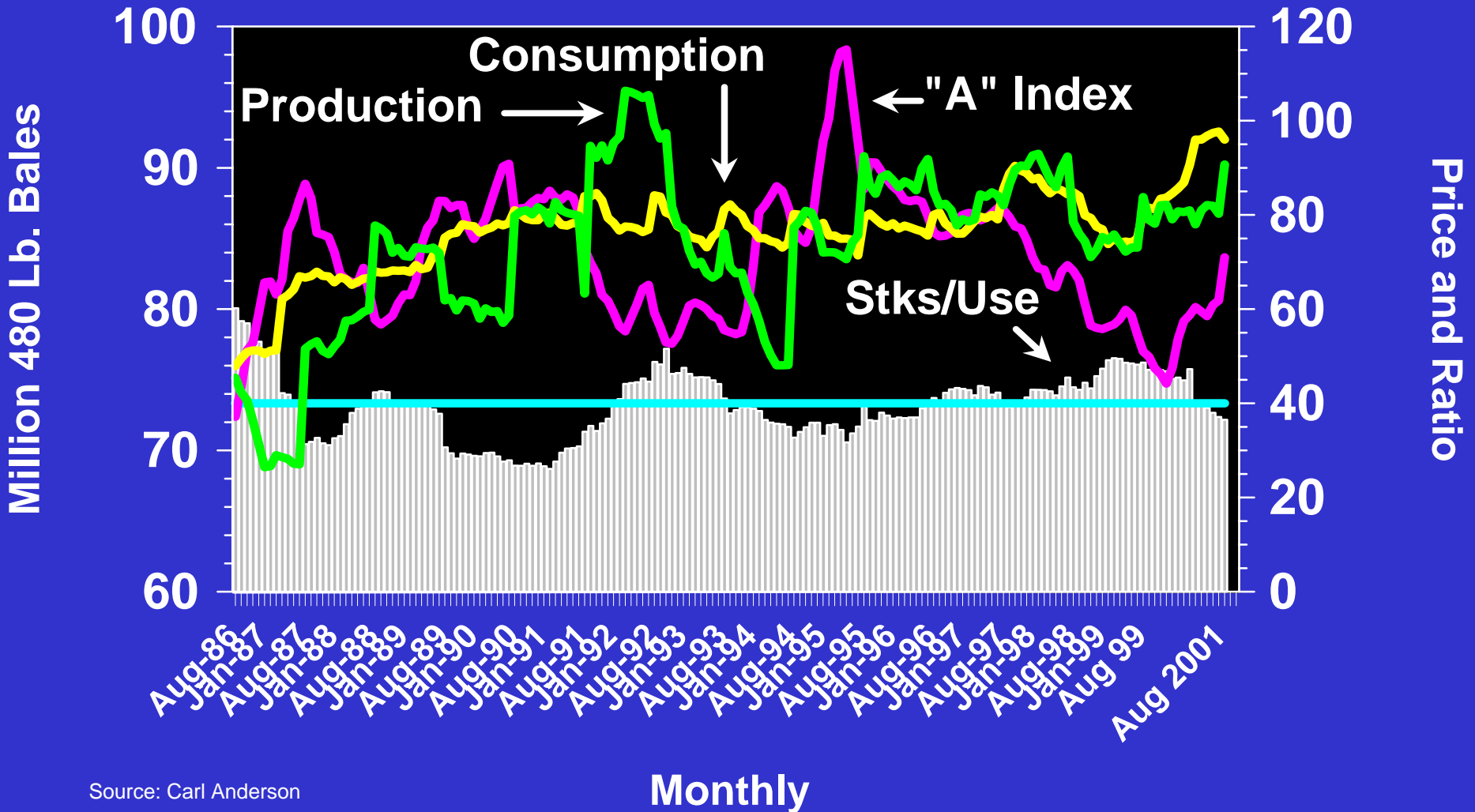


"Cause" Price Declines? US Cotton Planted Acres and Price



"Cause" Price Declines?

Cotton: World Production, Consumption, Stocks/Use, and "A" Index



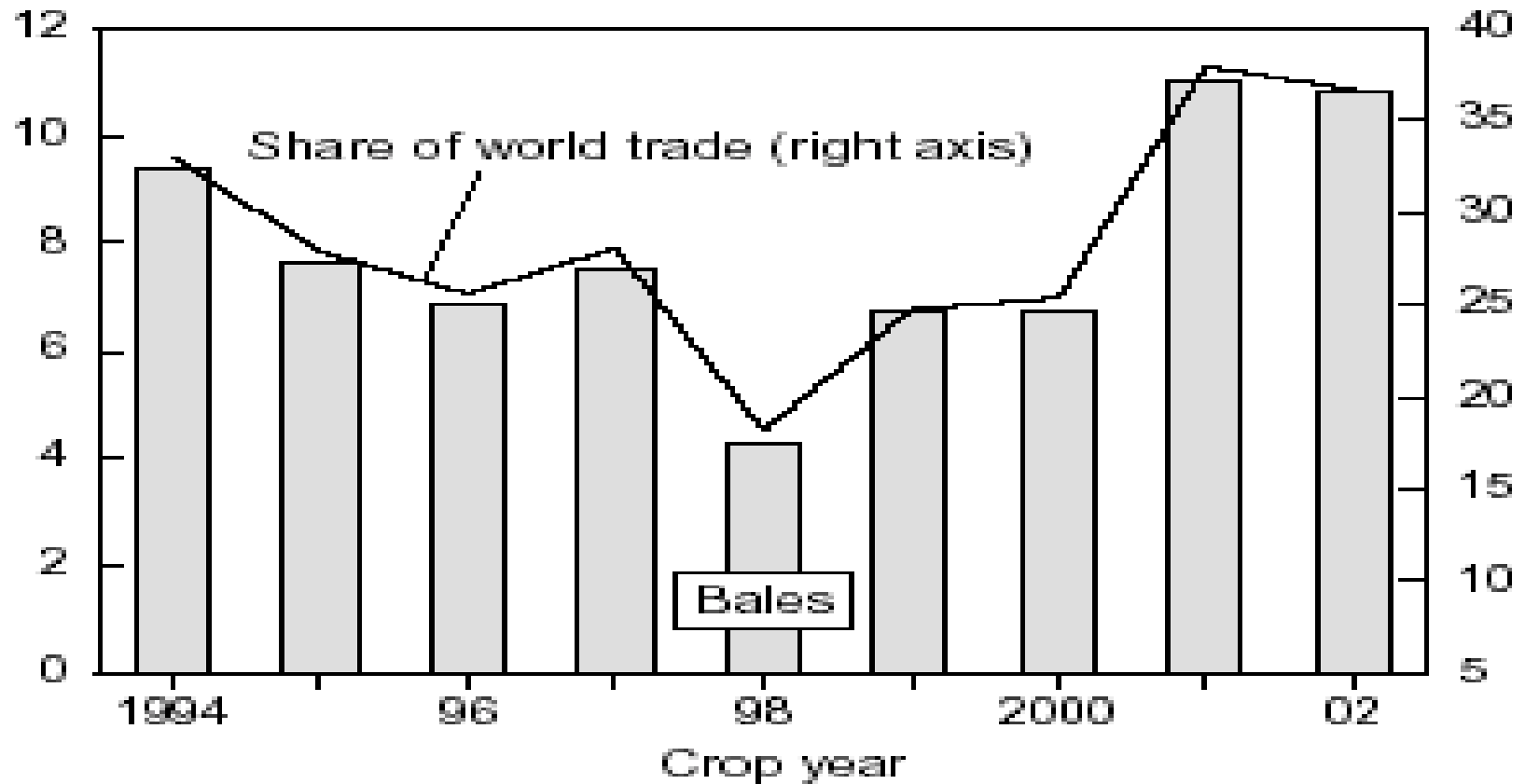
Source: Carl Anderson

Gain Market Share?

U.S. cotton exports

Mil. bales

Percent



2002 estimated.

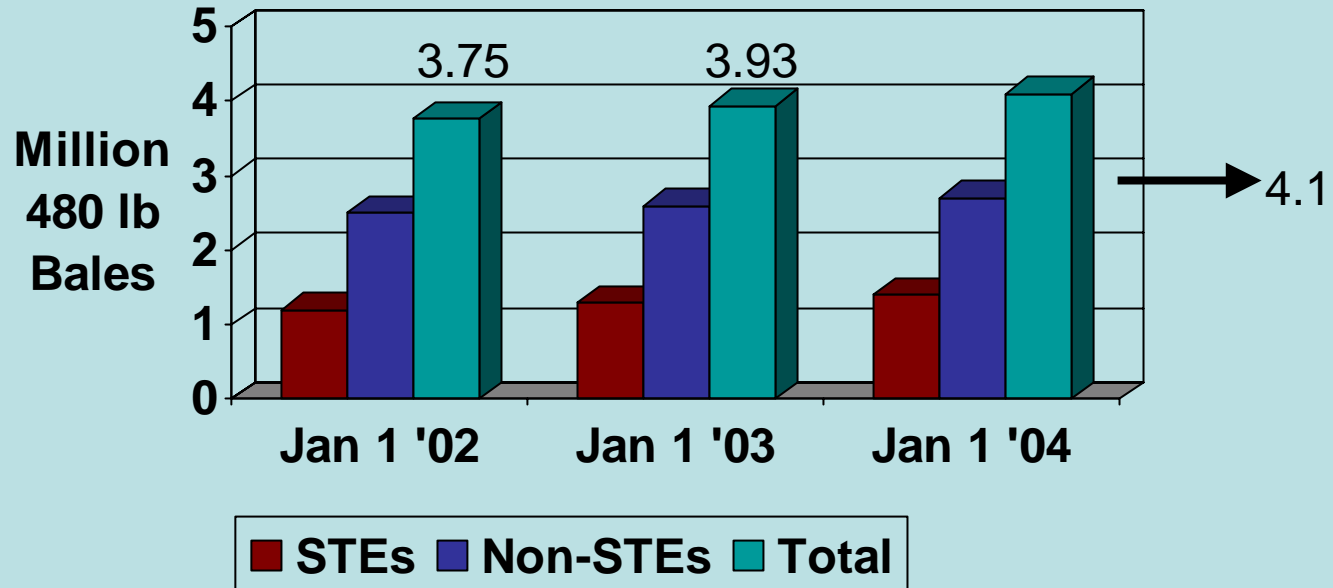
Source: USDA.

The Battle Lines are Drawn For Cleaver Advocates

- **For Brazil: Observations make conclusions obvious**
- **For the US: Correlation does not mean causation, many reasons for what we observe: Asian financial crisis, faltering Global economy, currency values, tripling of world production capacity for textile polyester, etc.**

China TRQ Administration

China Cotton TRQ Under Accession Agreement



Problems with China TRQ Administration

**China began by being late, no announcements until March
in first year**

China did not allocate exactly like it was expected

China's administrative procedures are complex and cumbersome

China's quality measures may be a “national treatment” problem

Why Do We Care?

Potential for Large Net Imports

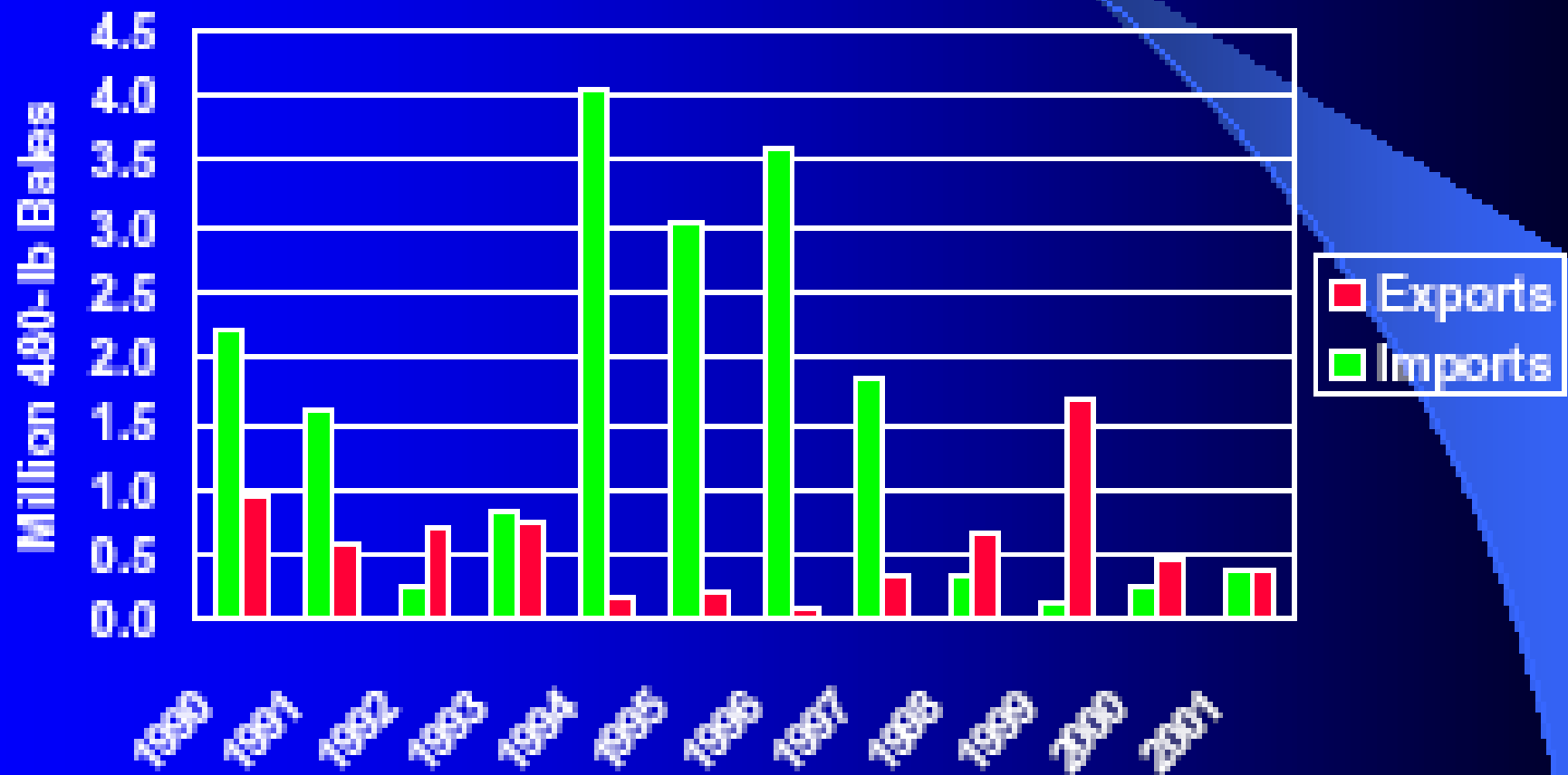


Exhibit 98

China Cotton Production

Million Bales

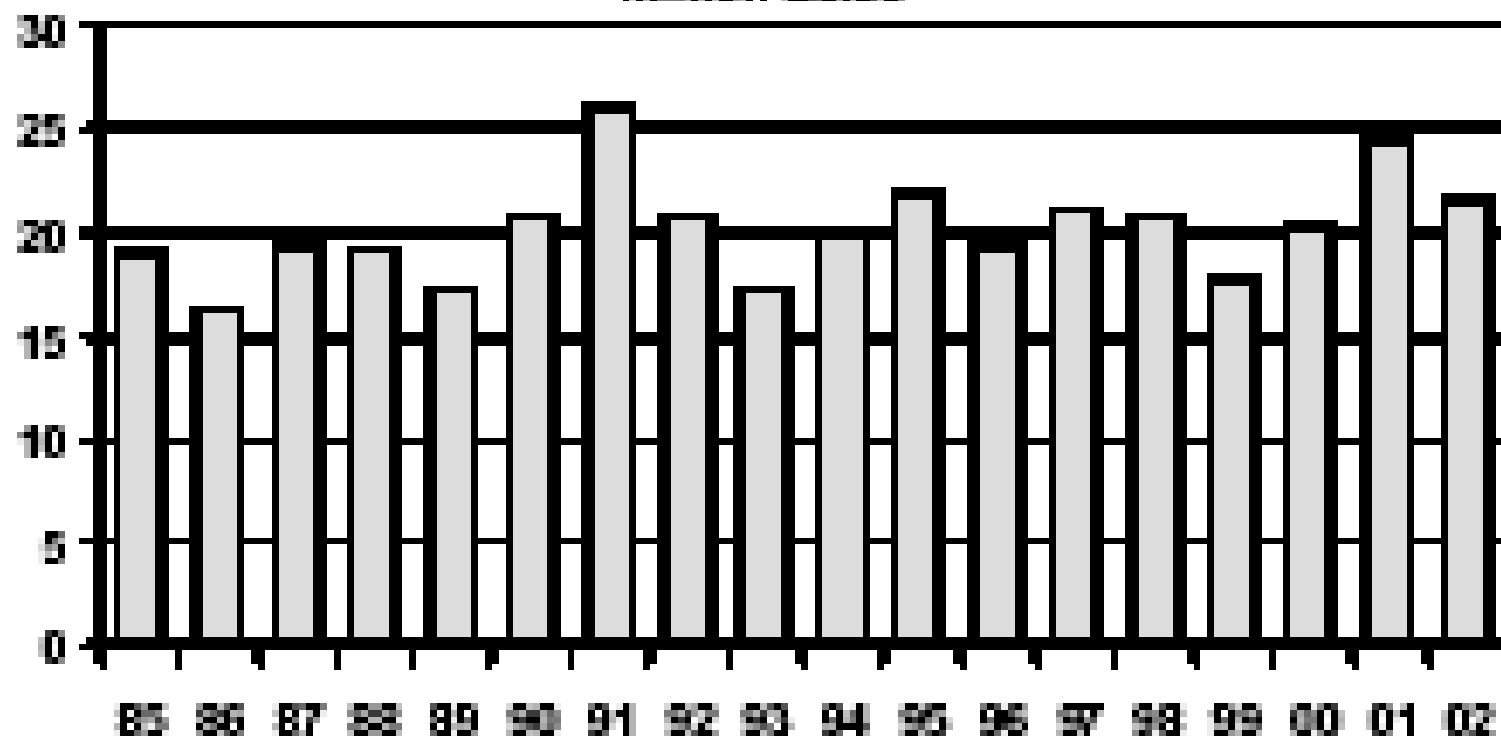


Exhibit 109

China Cotton Mill Use

Million Bales

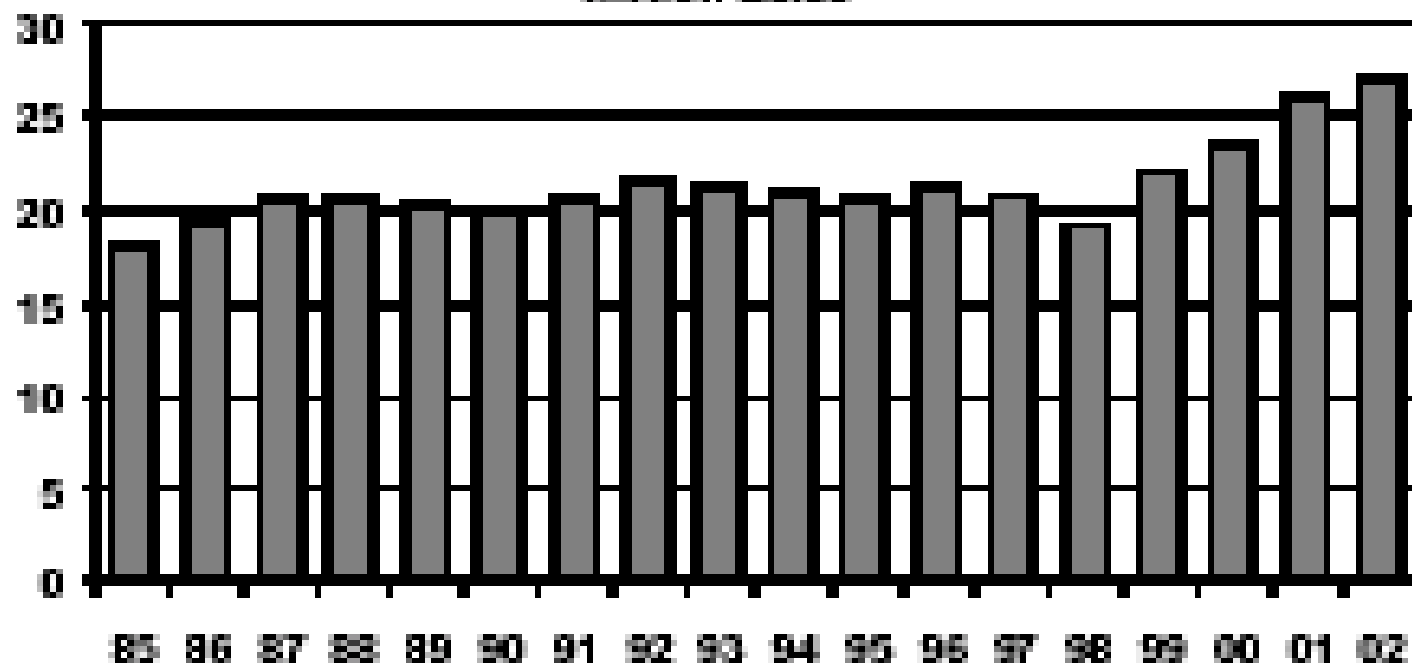


Exhibit 131

World Supply and Demand

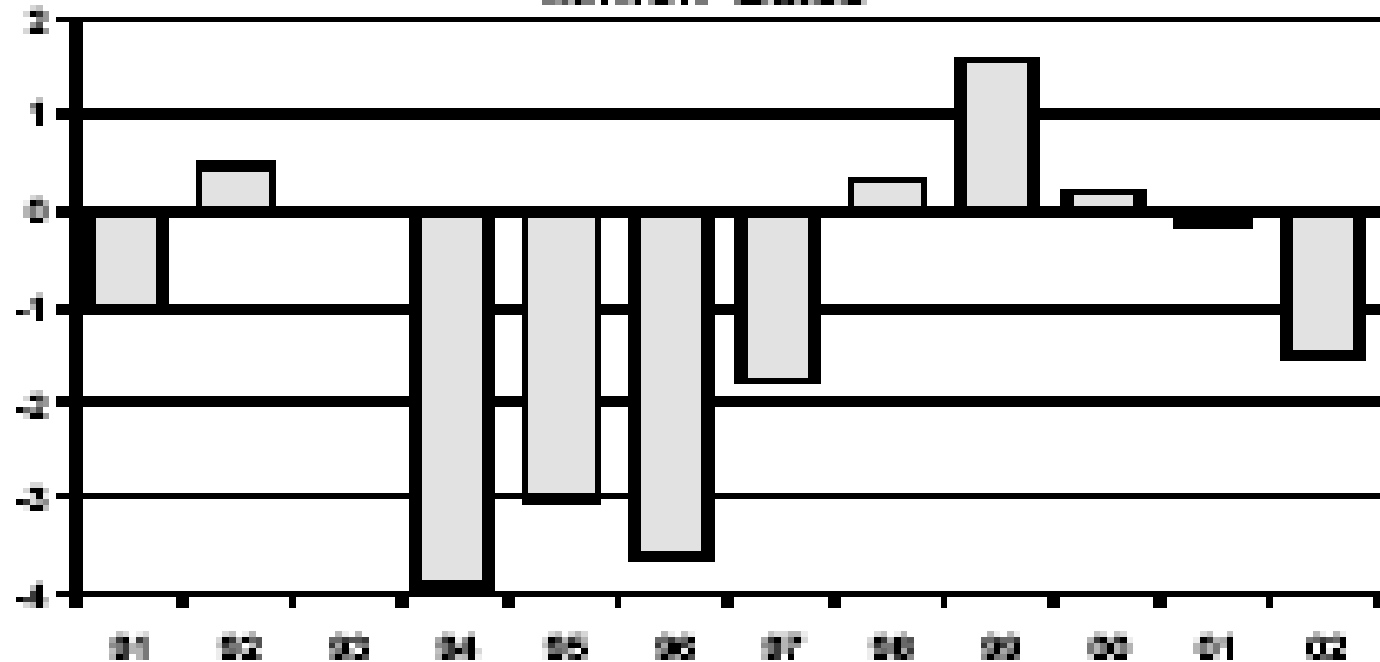
Million Bales

	<u>2002/03</u>	<u>2003/04</u>
Beginning Stocks	46.63	37.92
Production	87.40	94.00
Imports	29.85	30.15
 Total Supply	163.88	162.07
Mill Use	96.45	97.10
Exports	29.57	30.00
 Total Offtake	126.02	127.10
Unaccounted	-0.06	-0.05
Ending Stocks	37.92	35.02
Stocks-to-Use Ratio	39.3%	36.1%

Exhibit 122

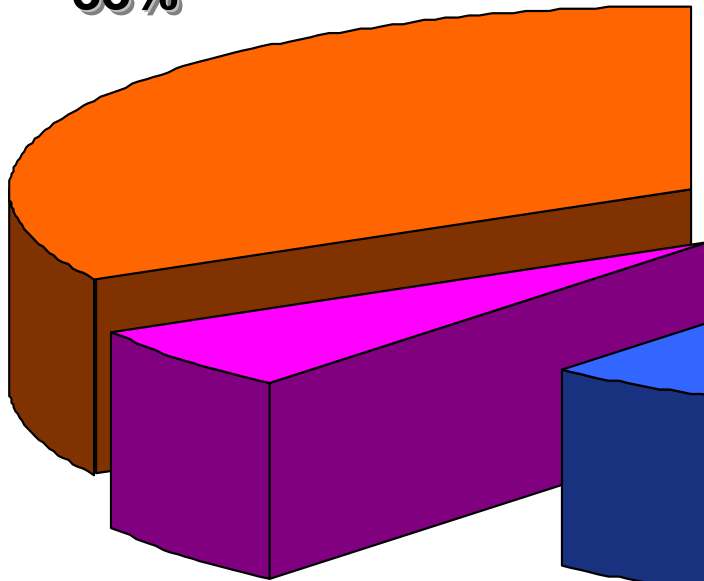
Chinese Net Trade

Million Bales



China's Tariff Rate Quota Agreement 3.75 Million Bales

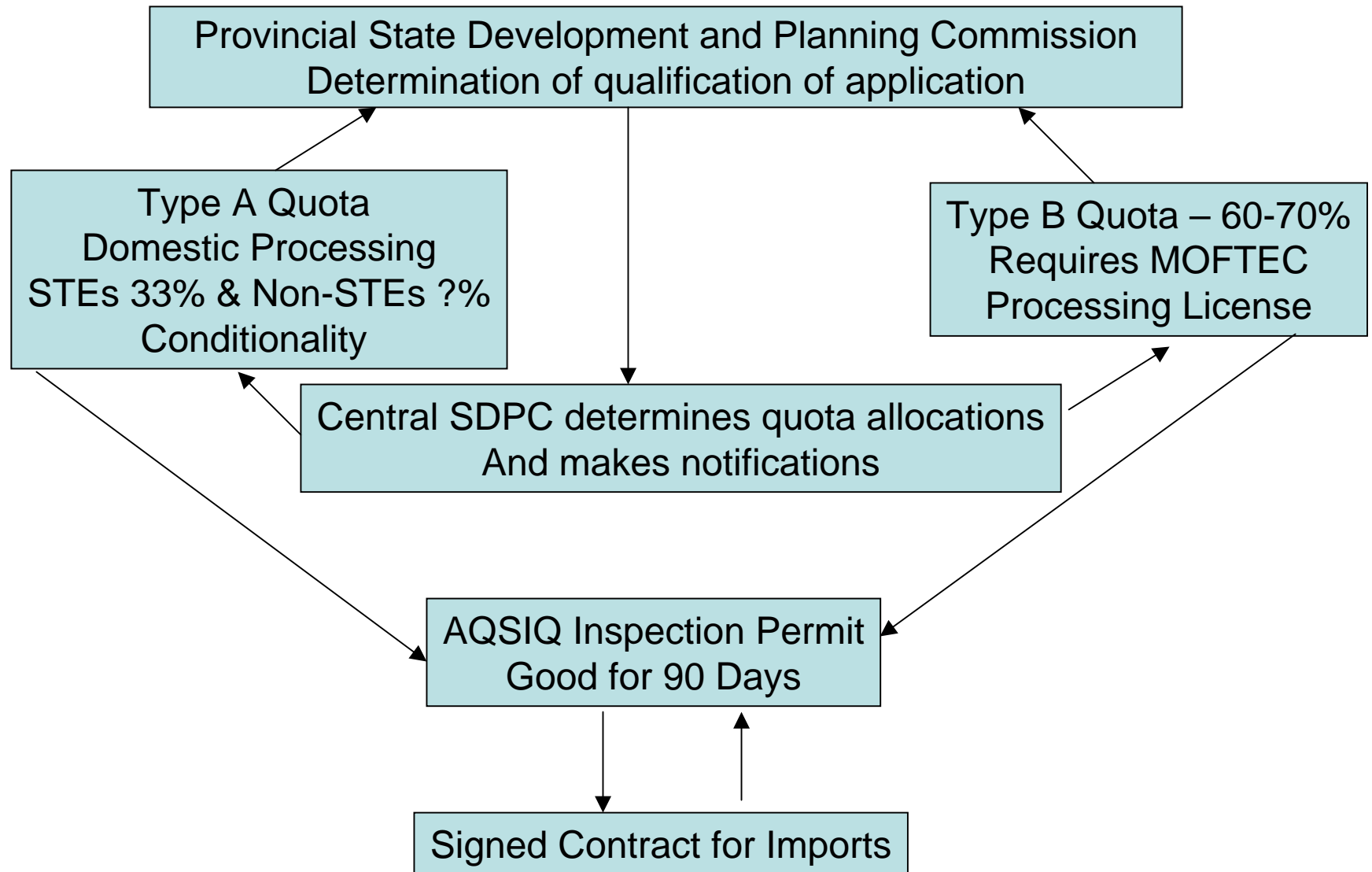
State Owned
33%



Private
6%

For Re-Export
61% (Type B)

Figure 4. China Cotton TRQ Administration



ATC Implementation

Figure 5. Agreement on Textiles and Clothing Implementation Schedule

Four steps over 10 years

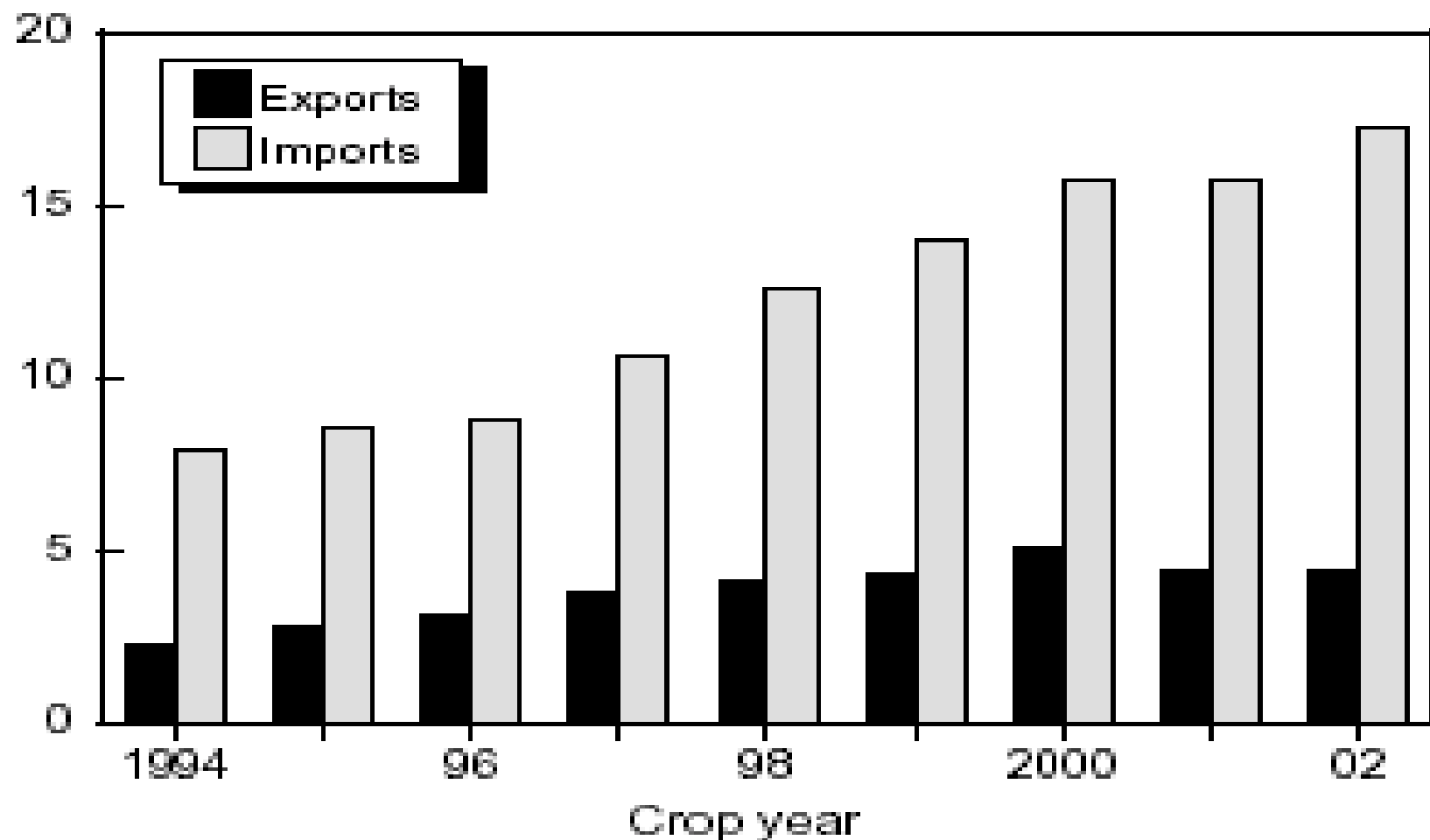
The schedule for freeing textiles and garments products from import quotas (and returning them to GATT rules), and how fast remaining quotas should expand. This example is based on the commonly-used 6% annual expansion rate of the old Multifibre Arrangement. The actual rates used under the MFA varied from product to product.

Step	Percentage of products to be brought under GATT (including removal of any quotas)	How fast remaining quotas should open up, if 1994 rate was 6%
Step 1 1 Jan 1995 to 31 Dec 1997	16% (minimum, taking 1990 imports as base)	6.96% per year
Step 2 1 Jan 1998 to 31 Dec 2001	17%	8.7% per year
Step 3 1 Jan 2002 to 31 Dec 2004	18%	11.05% per year
Step 4 1 Jan 2005 > Full integration into GATT (and final elimination of quotas). > Agreement on Textiles and Clothing terminates	49% (maximum)	No quotas left

The actual formula for import growth under quotas is:
 by $0.16 \times \text{pre-1995 growth rate}$ in the first step;
 $0.25 \times \text{Step 1 growth rate}$ in the second step; and
 $0.27 \times \text{Step 2 growth rate}$ in the third step.

U.S. cotton textile trade

Mil. bales equivalents



2002 estimated.

Source: Economic Research Service, USDA.

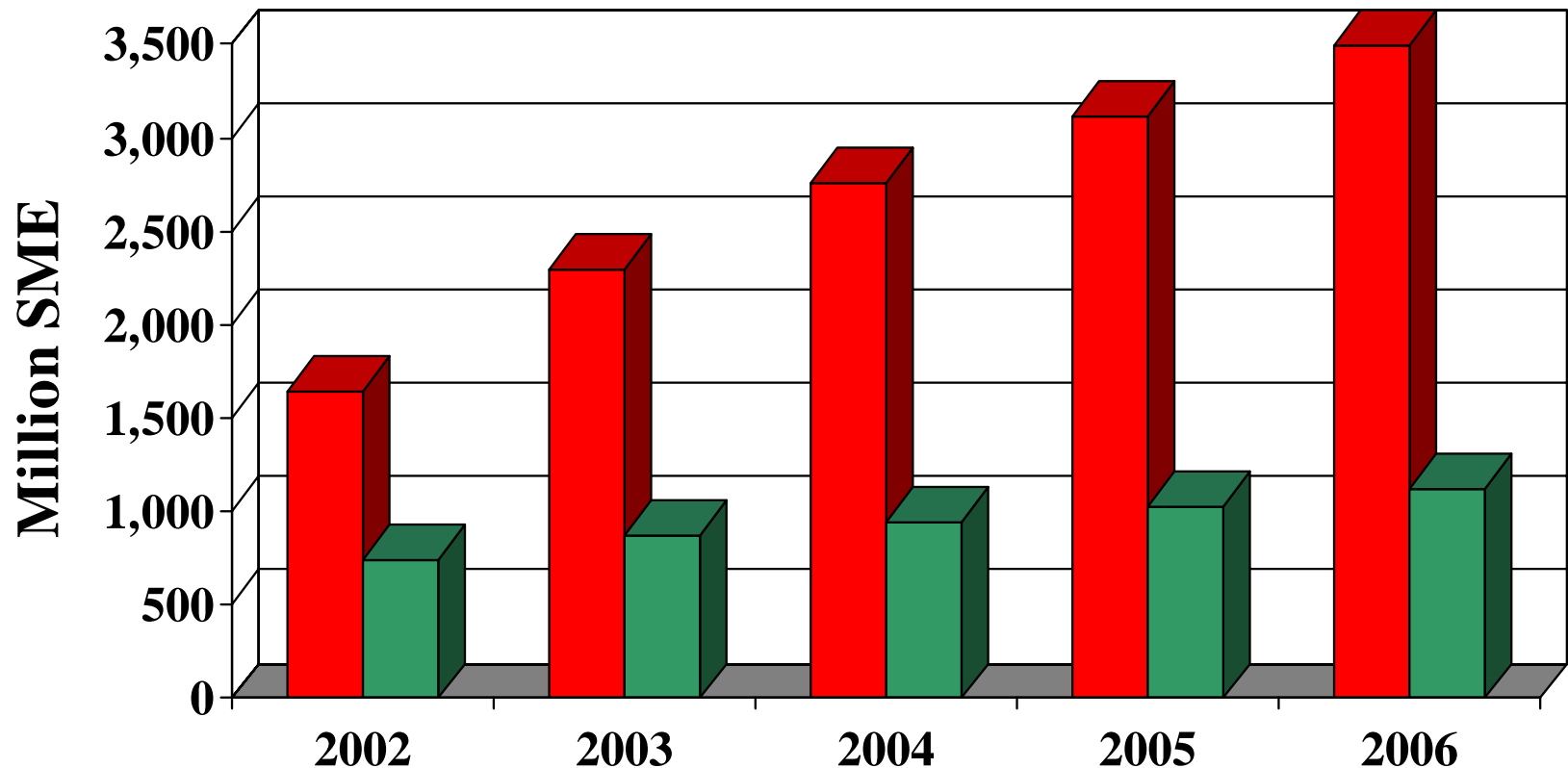
Effective Tariff Rates for Textiles

- US < 9%
- Argentina 40% to 50%
- Brazil 40% to 70%
- China 20% to 36%
- India 50% to 70%
- Pakistan 40% to 60%
- Bangladesh 60% to 300%

Regional Fabric & T-Shirt Quotas

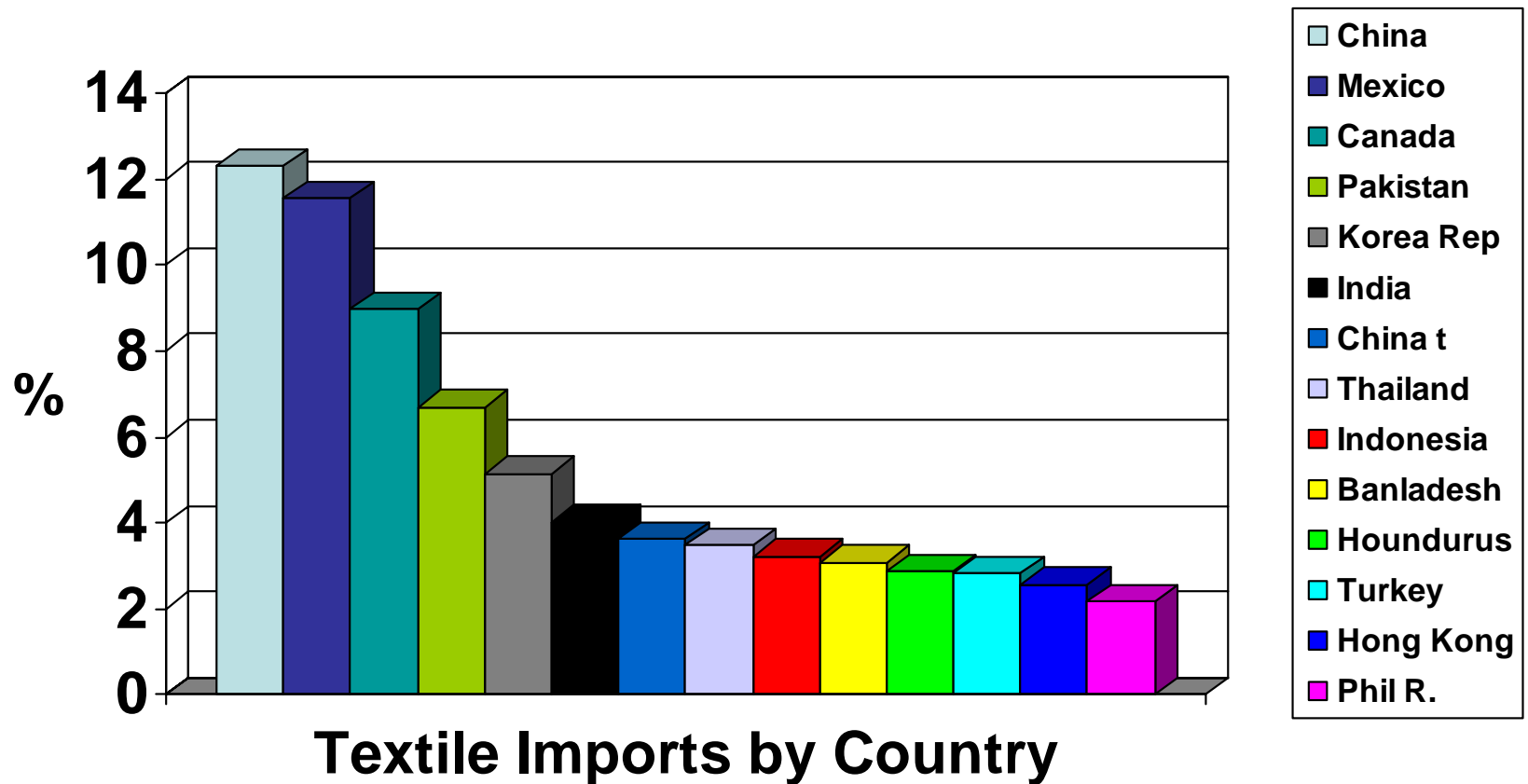
CBTPA / ATPDEA / AGOA

■ New Quotas ■ Old Quotas



**Figure 6. Imports of all MFA Fibers as of end
11/02**

73%



102 Countries Export Textiles to the U.S.
Office of Textile Administration